

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Mass Transportation Authority	County Genesee
Audit Date 9/30/04	Opinion Date 1/14/05	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

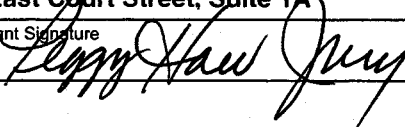
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) BKR Dupuis & Ryden			
Street Address 111 East Court Street, Suite 1A		City Flint	State MI
Accountant Signature 		ZIP 48502	Date 3/23/05

Financial Statements

**Mass Transportation Authority
1401 South Dort Highway
Flint, Michigan 48503**

September 30, 2004 and 2003

with Independent Auditors Report

Mass Transportation Authority

Governing Committee and Administration

September 30, 2004

Governing Committee

Chairman
Vice Chairman
Secretary/Treasurer

Floyd Clack
John W. Northup
Richard Abrams

Board Members:

Jessie Collins
Carolyn Sims
Dr. Orlando Roberts
Alice Lewis
Paul Luthenbacher
Michael Zelle
Joe Conroy
Chris Martin

Administration

General Manager
Assistant General Managers:
Administration
Operations
Services

Robert Foy
Jerry Ragsdale
Terry Jurrens
Ed Benning

Table of Contents

	<u>Page</u>
Financial Section:	
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements:	
Balance Sheets	8-9
Statements of Revenues, Expenses, and Changes in Net Assets	10
Statements of Cash Flows	11-12
Fund Financial Statements:	
Fiduciary Funds:	
Pension Trust Fund:	
Combining Statements of Net Assets	13-14
Combining Statements of Changes in Fiduciary Net Assets	15-16
Notes to Financial Statements	17-28
Supplementary Information:	
Schedule I - Enterprise Fund Operating Revenues	29
Schedule II - Enterprise Fund Operating Expenses	30
Schedule III - Enterprise Fund Nonoperating Revenues	31
Schedule IV - Schedule of Expenses by Contract and General Operations	32-33
Schedule V - Maximum Reimbursement Computation of State Bus Operating Assistance	34-35
Schedule VI - Detail of Ineligible Items - <u>State</u>	36
Schedule VII - Vehicle Miles (unaudited)	37

Table of Contents (continued)

Page

Supplementary Information: - (continued)

Independent Auditors' Report on Compliance on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	38-39
Independent Auditors' Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	40-41
Schedule of Expenditures of Federal Awards.....	42-44
Schedule of Findings and Questioned Costs.....	45-46
Summary Schedule of Prior Audit Findings	47

Financial Section

Independent Auditors' Report

Board of Directors
Mass Transportation Authority
1401 South Dort Highway
Flint, Michigan 48503

We have audited the accompanying basic financial statements of the Mass Transportation Authority (MTA), as of and for the year ended September 30, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of the Mass Transportation Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and governmental auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mass Transportation Authority at September 30, 2004 and 2003, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 14, 2005 on our consideration of Mass Transportation Authority's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements. The fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. The other accompanying financial information, listed as schedules in the table of contents, is also presented for the purposes of additional analysis and is not a required part of the basic financial statements of the Mass Transportation Authority. The information in the schedule of expenditures of federal awards and Schedules I through VI have been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. The information in Schedule VII has not been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, accordingly, we express no opinion on it.



Certified Public Accountants
Flint Office

January 14, 2005

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the Mass Transportation Authority ("Authority"), we offer readers of the Authority's basic financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended September 30, 2004. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements taken as a whole.

Overview of Financial Highlights

- The Authority has net assets of \$37.8 million at fiscal year end 2004. These net assets result from the difference between total assets of \$44.5 million and total liabilities of \$6.7 million.
- Current assets of \$5.0 million primarily consist of non-restricted cash and investments of \$1.2 million; government receivables of \$3.0 million; and inventory of \$.6 million.
- Current liabilities of \$5.8 million primarily consist of government payables of \$1.5 million; accounts payable of \$1.4 million; accrued compensation of \$.8 million; line of credit of \$2 million, and other payables of \$.1 million.

Basic Financial Statements and Presentation

The basic financial statements presented by the Authority are the Balance Sheet, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. These statements are presented using the economic resources measurement focus and the accrual basis of accounting. The Authority is structured as a single enterprise fund with revenues recognized when earned and measurable, not when received. Expenses are recognized when they are incurred, not when paid. Capital assets are capitalized and depreciated, except land, over their estimated useful lives.

The Balance Sheet presents information on all the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases in assets without a corresponding increase to liabilities results in increased net assets, which indicate improved financial position.

The Statement of Revenues, Expenses and Changes in Net Assets present information showing how the Authority's net assets changed during the year. This statement summarizes operating revenues and expenses along with non-operating revenues and expenses. In addition, this statement lists capital grant revenues received from federal, state and local governments.

The Statement of Cash Flows allows financial statement users to assess the Authority's adequacy or ability to generate sufficient cash flows to meet its obligations in a timely manner. The statement is classified into four categories: 1) Cash flows from operating activities, 2) Cash flows from non-capital financing activities, 3) Cash flows from capital and related financing activities, and 4) Cash flows from investing activities.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Analysis of the Authority

Condensed Summary of Net Assets

The Authority issued comparative financial statements in 2004.

	<u>2004</u>	<u>2003</u>
Current assets	\$ 5,014,779	\$ 3,518,787
Capital assets (net of accumulated depreciation)	<u>39,456,750</u>	<u>39,258,990</u>
Total assets	<u>\$44,471,529</u>	<u>\$42,777,777</u>
Current liabilities	\$ 5,845,725	\$ 4,385,724
Non-current liabilities	<u>822,002</u>	<u>676,861</u>
Total liabilities	<u>\$ 6,667,727</u>	<u>\$ 5,062,585</u>
Net assets:		
Invested in capital assets	\$39,456,750	\$39,258,990
Restricted	31,779	12,050
Unrestricted (deficit)	<u>(1,684,727)</u>	<u>(1,555,848)</u>
Total net assets	<u>\$37,803,802</u>	<u>\$37,715,192</u>

The largest portion of the Authority's net assets reflects investment in capital assets consisting of buses and operating facilities. The Authority uses these capital assets to provide public transportation services for the Genesee County area.

Condensed Summary of Revenues, Expenses and Changes in Net Assets

	<u>2004</u>	<u>2003</u>
Operating revenues (expenses)		
Operating revenues	\$ 2,616,198	\$ 2,343,788
Operating expenses, excluding depreciation	(19,896,776)	(18,291,653)
Depreciation expense	<u>(5,934,004)</u>	<u>(5,354,798)</u>
Operating loss	<u>(23,214,582)</u>	<u>(21,302,663)</u>
Non-operating revenues (expenses)		
Property tax revenues	4,804,479	4,615,969
State grants and reimbursements	8,121,227	8,772,393
Federal grants and reimbursements	4,184,649	4,259,571
Gain on sale of capital asset	57,079	-
Investment income	<u>3,994</u>	<u>4,583</u>
Total non-operating revenues	<u>17,171,428</u>	<u>17,652,516</u>
Capital grant revenue	<u>6,131,764</u>	<u>1,858,443</u>
Increase (decrease) in net assets during the year	88,610	(1,791,704)
Net assets, beginning of year	<u>37,715,192</u>	<u>39,506,896</u>
Net assets, end of year	<u>\$ 37,803,802</u>	<u>\$37,715,192</u>

Capital Assets

Capital Assets

The Authority's investment in capital assets for as of September 30, 2004 amounts to \$39.5 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, construction in progress, leasehold improvements, revenue equipment, maintenance and garage equipment, service cars and furniture and fixtures. Additional information on the Authority's capital assets can be found in Note 3 on page 22 of this report.

	<u>2004</u>	<u>2003</u>
Land	\$ 1,895,925	\$ 1,895,925
Construction in progress	3,548,064	218,360
Buildings	22,294,393	23,528,668
Leasehold improvements	31,929	34,483
Revenue equipment	11,125,452	12,918,099
Maintenance and garage equipment	132,309	166,823
Service cars	4,235	23,116
Furniture and fixtures	424,443	473,516
Total	<u>\$39,456,750</u>	<u>\$39,258,990</u>

Para Transit Centers

The Authority is making a significant investment for the construction of local Para Transit Centers over a three-year period. These centers are designed to improve customer service by offering our riders convenient local facilities. Comfortable waiting areas and time-coordinated service will make it more convenient for riders to secure transportation. These facilities will also serve as vehicle fueling and storage units, furthering the efficiency of operations.

Capital Operating Expenses and Other Expenses

Capital operating expenses for fiscal 2004 were \$4.2 million compared to \$3.8 million for fiscal 2003.

These operating costs are budgeted and are reimbursable by the Federal and State governments.

Financial Operating Results

Revenues

Operating revenues are summarized into the following categories:

Passenger Fares – Farebox receipts and special transit fares are included here. The overall decrease over the previous year reflects the loss of the student transportation contract and the down turn in the local economy.

Advertising and Concessions – Fees derived from the contractual agreement to have advertisements on the buses are included here. This category also summarizes various rental activities of the MTA. This includes the rental of a radio tower, and other facilities.

Property Tax – This dedicated .4 mill tax is levied in Genesee County, and an additional .6 mill is levied in the City of Flint. In August 2004, an additional county-wide .4 mill was approved. Therefore the total dedicated tax levy for Genesee County is .8 mills. For 2004 and 2003, approximately 15% of the Authority's revenues used for operations came from the county-wide tax and 8% from the City of Flint.

Federal Grants and Reimbursements – The Authority utilized \$3 million in Section 5307 capital funds to reimburse the costs of preventive maintenance and certain inventory purchases. Other specific grants are awarded as incentives to expand and enhance services to select clients, or to achieve other operational goals.

State Operating Grants – The Michigan Department of Transportation allocates grants for operating assistance based on expenses submitted by all Michigan transit agencies. This assistance cannot amount to less than what was allocated in 1997. The MTA is currently at this 1997 funding amount, which is referred to as the "Floor". Other specific grants are awarded as incentives to expand and enhance services to select clients.

Expenses

Labor and Fringe Benefits – These personnel costs accounted for approximately 70% and 71% of all the Authority operating expenses (excluding depreciation) in 2004 and 2003, respectively. This proportion is consistent with past years' experiences.

Services – This account consists of legal fees, auditor's fees, and office equipment maintenance services.

Materials and Supplies – Fuel and fluids for all vehicles, in addition to the parts to maintain and repair the fleet account for the majority of this classification. Office and general maintenance supplies account for the remaining.

Insurance – The MTA is partially self-insured; therefore this account represents both the direct payments to claimants as well as premiums due for excess coverage. In addition, the MTA is required to accumulate a fund balance to support its self-insurance program. The cost of excess coverage has greatly increased in this area, causing the MTA to restructure coverage, and assume additional exposure.

Economic Factors and Deficit Elimination Plan in Process

In the years 2001 and prior the Mass Transportation Authority had accumulated an operating deficit of \$4.1 million. These deficits were primarily the results of changes in Federal and State operating assistance over this period. The Mass Transportation Authority established the elimination of the deficit as a primary goal for the period through FY 2005. Based upon our increase in local millage revenue, it is projected that operating revenues will eliminate the deficit in FY 2005.

The City of Flint is going through a period of transition. As manufacturing jobs are being lost in the City, the tax base finds it difficult to maintain the current level of services. At the same time good paying job opportunities have developed in counties surrounding Genesee County, therefore the need for regional transportation has become evident.

In the county, the property values are extremely reasonable when compared to the surrounding area. This has created an influx of home ownership in Genesee County where the resident works in one of the surrounding counties. The number of housing complexes that cater to the elderly is increasing significantly. Both of these factors have led to increased ridership in the out-county. This ridership increase has fostered a need for expanded service levels.

The expansion of the national economy has not generated adequate revenues to meet Federal budget needs. Similarly at the State level, budget deficits are having an impact on the ability to fund transportation programs at previous levels. Both of these factors are the impetus for the Mass Transportation Authority to expand our local financial commitment.

In addition to an expanded local financial participation, it is essential that public service organizations partner with each other to eliminate the duplication of transportation services. The Mass Transportation Authority is in the process of partnering with other organizations in an effort to expand our customer base. An expanded customer base will be necessary to maintain the present level of services as State and Federal subsidies are reduced.

The combination of these factors will lead to MTA efforts to expand our customer base in the City of Flint, provide additional services in the out-county areas and increase the local financial participation of the local communities.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances for those with an interest in its finances. Questions concerning any of the information in this report or requests for additional financial information should be addressed to Robert J. Foy, General Manager, Mass Transportation Authority, 1401 S. Dort Highway, Flint, Michigan 48503.

Basic Financial Statements

**Mass Transportation Authority
Balance Sheets
September 30, 2004 and 2003**

	2004	2003
Assets		
Current assets:		
Cash	\$ 313,794	\$ 385,584
Investments	838,284	784,291
Accounts receivable	152,090	86,107
Due from federal government	1,122,502	182,381
Due from state government	1,313,094	733,872
Due from local government	455,982	418,618
Inventories	606,083	605,041
Prepaid expenses	212,950	322,893
Total current assets	<u>5,014,779</u>	<u>3,518,787</u>
Capital assets:		
Land	1,895,925	1,895,925
Construction in progress	3,548,064	218,360
Buildings	33,743,504	33,648,274
Leasehold improvements	50,518	50,518
Revenue equipment	41,261,974	39,387,853
Maintenance and garage equipment	1,024,073	968,969
Service vehicles	292,475	292,475
Furniture and fixtures	3,525,402	3,367,814
Total capital assets	85,341,935	79,830,188
Less accumulated depreciation	<u>(45,885,185)</u>	<u>(40,571,198)</u>
Capital assets - net	<u>39,456,750</u>	<u>39,258,990</u>
Total assets	<u><u>\$ 44,471,529</u></u>	<u><u>\$ 42,777,777</u></u>

See notes to financial statements.

	2004	2003
Liabilities and Net Assets		
Current liabilities:		
Due to other funds	\$ 103,864	\$ 109,493
Due to state government	1,495,178	2,696,490
Accounts payable	1,397,229	491,264
Current portion of self insurance liabilities	-	133,191
Accrued salaries and wages	542,052	661,738
Compensated absences	307,402	293,548
Line of credit	2,000,000	-
Total current liabilities	5,845,725	4,385,724
Non-current liabilities		
Accounts payable	13,349	37,439
Self insurance liabilities	808,653	639,422
Total non-current liabilities	822,002	676,861
Total liabilities	6,667,727	5,062,585
Net assets:		
Invested in capital assets	39,456,750	39,258,990
Restricted for:		
Self Insurance	31,779	12,050
Unrestricted (deficit)	(1,684,727)	(1,555,848)
Total net assets	37,803,802	37,715,192
Total liabilities and net assets	\$ 44,471,529	\$ 42,777,777

Mass Transportation Authority
Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended September 30, 2004 and 2003

	2004	2003
Operating revenues:		
Passenger fares	\$ 2,282,364	\$ 2,063,228
Advertising and concessions	333,834	280,560
Total operating revenues	<u>2,616,198</u>	<u>2,343,788</u>
Operating expenses:		
Labor	8,802,937	8,402,006
Fringe benefits	5,213,104	4,653,007
Services	1,096,666	1,048,134
Materials and supplies	2,600,066	2,154,633
Utilities	628,904	536,726
Insurance	1,066,016	1,011,265
Taxes and fees	6,015	1,059
Miscellaneous	142,965	140,616
Interest expense	60,564	64,398
Leases and rentals	279,539	279,809
Total operating expenses excluding depreciation	<u>19,896,776</u>	<u>18,291,653</u>
Operating loss before depreciation expense	(17,280,578)	(15,947,865)
Depreciation expense	<u>5,934,004</u>	<u>5,354,798</u>
Operating loss	(23,214,582)	(21,302,663)
Non-operating revenues:		
Property tax revenue	4,804,479	4,615,969
State of Michigan operating grants:		
Urban operating assistance	5,109,089	5,109,089
Non-urban operating assistance	331,312	319,600
Operating assistance 1999 reconciliation	(98,964)	-
Project Zero	918,230	1,244,048
Job Access	743,445	1,040,204
Capital grants used for operations	834,144	775,481
Specialized services	283,971	283,971
Federal operating grants:		
Job Access/Reverse Commute	743,445	1,040,204
Section 5311 operating assistance	80,045	84,466
Capital grants used for operations	3,336,575	3,101,925
FTA Section 8 - Ridership study	22,704	-
Federal security/emergency management	1,880	32,976
Gain on sale of capital asset	57,079	-
Interest income	3,994	4,583
Total non-operating revenues	<u>17,171,428</u>	<u>17,652,516</u>
Net loss before capital grant revenue	(6,043,154)	(3,650,147)
Capital grant revenue:		
Federal	4,905,411	1,488,465
State	1,226,353	371,961
Prior year capital grant items reclassified to expense	-	(1,983)
Total capital grant revenue	<u>6,131,764</u>	<u>1,858,443</u>
Increase (decrease) in net assets	88,610	(1,791,704)
Net assets, beginning of the year	<u>37,715,192</u>	<u>39,506,896</u>
Net assets, end of the year	<u>\$ 37,803,802</u>	<u>\$ 37,715,192</u>

See notes to financial statements.

Mass Transportation Authority
Statements of Cash Flows
For the Years Ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Cash received from customers	\$ 2,550,216	\$ 2,325,885
Cash payments to suppliers for goods and services	(10,893,172)	(10,709,836)
Cash payments to employees for services	(8,908,770)	(8,224,338)
Net cash used in operating activities	<u>(17,251,726)</u>	<u>(16,608,289)</u>
Cash flows from capital and related financing activities:		
Principal payments on capital lease	-	(20,763)
Cash received from sale of capital assets	57,079	-
Cash received from capital grants	4,937,953	2,451,262
Additions to property and equipment	(5,305,615)	(2,537,019)
Net cash used in capital and related financing activities	<u>(310,583)</u>	<u>(106,520)</u>
Cash flows from non-capital financing activities:		
Cash received from operating federal grants	4,146,464	5,239,845
Cash received from operating state grants	6,632,568	9,201,870
Cash received from taxes	4,767,115	4,630,904
Cash received (payments) on line of credit	2,000,000	(2,000,000)
Retiree benefits paid from reserve proceeds	(5,629)	(6,097)
Net cash provided by non-capital financing activities	<u>17,540,518</u>	<u>17,066,522</u>
Cash flows from investing activities:		
Investment income	3,994	4,583
Purchase of investments	(53,993)	(68,008)
Net cash used in investing activities	<u>(49,999)</u>	<u>(63,425)</u>
Net increase (decrease) in cash	(71,790)	288,288
Cash at beginning of year	<u>385,584</u>	<u>97,296</u>
Cash at end of year	<u>\$ 313,794</u>	<u>\$ 385,584</u>

See notes to financial statements.

(continued)

Mass Transportation Authority
Statements of Cash Flows (continued)
For the Years Ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	<u>\$ (23,214,582)</u>	<u>\$ (21,302,663)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	5,934,004	5,354,798
Changes in operating assets and liabilities:		
Accounts receivable	(29,943)	(17,903)
Inventories	(1,042)	68,778
Prepaid expenses	109,943	(180,054)
Accounts payable	55,727	(708,913)
Accrued salaries and wages and compensated absences	<u>(105,833)</u>	<u>177,668</u>
Total adjustments	<u>5,962,856</u>	<u>4,694,374</u>
Net cash used in operating activities	<u><u>\$ (17,251,726)</u></u>	<u><u>\$ (16,608,289)</u></u>
Noncash investing, capital and financing activities:		
Interest paid	<u><u>\$ 60,564</u></u>	<u><u>\$ 64,398</u></u>

See notes to financial statements.

Fund Financial Statements

**Mass Transportation Authority
Pension Trust Funds
Combining Statements of Net Assets
September 30, 2004 and 2003**

	2004		
	Pension Trust		
	Hourly Plan	Management Plan	Totals
Assets			
Cash value of insurance policies	\$ -	\$ 3,514	\$ 3,514
Investments	2,839,073	1,819,775	4,658,848
Due from other funds	-	103,864	103,864
Total assets	\$ 2,839,073	\$ 1,927,153	\$ 4,766,226
Net Assets			
Held in trust for pension benefits	\$ 2,839,073	\$ 1,879,640	\$ 4,718,713
Held in trust	-	47,513	47,513
Total net assets	\$ 2,839,073	\$ 1,927,153	\$ 4,766,226

See notes to financial statements.

2003		
Pension Trust		
Hourly Plan	Management Plan	Totals
\$ -	\$ 3,331	\$ 3,331
2,637,272	1,528,534	4,165,806
-	109,493	109,493
\$ 2,637,272	\$ 1,641,358	\$ 4,278,630

\$ 2,637,272	\$ 1,588,216	\$ 4,225,488
-	53,142	53,142
\$ 2,637,272	\$ 1,641,358	\$ 4,278,630

**Mass Transportation Authority
Pension Trust Funds
Combining Statements of Changes in Fiduciary Net Assets
For the Years Ended September 30, 2004 and 2003**

		2004	
		Pension Trust	
	Hourly Plan	Management Plan	Totals
Additions:			
Contributions	\$ 252,974	\$ 266,100	\$ 519,074
Investment income	134,030	126,780	260,810
Total additions	387,004	392,880	779,884
Deductions:			
Participant distributions	185,203	107,085	292,288
Total deductions	185,203	107,085	292,288
Change in net assets	201,801	285,795	487,596
Net assets, beginning of year	2,637,272	1,641,358	4,278,630
Net assets, end of year	\$ 2,839,073	\$ 1,927,153	\$ 4,766,226

See notes to financial statements.

2003

Pension Trust		
Hourly Plan	Management Plan	Totals
\$ 240,356	\$ 256,722	\$ 497,078
190,914	272,878	463,792
431,270	529,600	960,870
306,678	270,503	577,181
306,678	270,503	577,181
124,592	259,097	383,689
2,512,680	1,382,261	3,894,941
\$ 2,637,272	\$ 1,641,358	\$ 4,278,630

Notes to Financial Statements

**Mass Transportation Authority
Notes to Financial Statements
September 30, 2004 and 2003**

1. Summary of significant accounting policies

The accounting policies of MTA conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant policies:

A. Reporting entity

The Mass Transportation Authority (MTA) was incorporated September 27, 1971, under the provisions of the Mass Transportation System Authorities Act, Act 55 of the Public Acts of Michigan of 1963. The Authority provides public transportation to the general public in the City of Flint and Genesee County area. The Authority is managed by a governing committee consisting of the City administrator of the City of Flint, or his or her designee; Ten United States citizens including the following: Chairperson of Genesee County Board of Commissioners, or another County Commissioner designated by the Chairperson; Representative of Genesee County Chapter of the Michigan Township Association; Representative of Genesee County Chapter of Small Cities and Villages Association; Representative of the education community designated by Flint Schools Superintendent; President of the Flint City Council or his or her designee; County Commissioner selected by the Genesee County Board of Commissioners; Two Flint residents appointed by the Mayor with concurrence of the Flint City Council; One Flint resident appointed by the Flint City Council; One Genesee County resident appointed by the Genesee County Board of Commissioners. The respective representatives of the Township Association and the Small Cities and Villages Association shall be selected, from among at least three persons nominated by the Association, by the Board of County Commissioners.

The Authority is not subject to federal or state income taxes.

Component units:

"The Financial Reporting Entity", as defined by Statement No. 14 of the Governmental Accounting Standards Board (GASB), is comprised of the primary government and its component units. The primary government includes all departments and operations of the MTA which are not legally separate organizations. Component units are legally separate organizations which are fiscally dependent on MTA or for which MTA is financially accountable. An organization is fiscally dependent if it must receive MTA's approval for its budget, the levying of taxes or the issuance of debt. MTA is financially accountable for an organization if it appoints a majority of the organization's board, and either a) has the ability to impose its will on the organization or b) there is the potential for the organization to provide a financial benefit to or impose a financial burden on the Authority. The reporting entity of MTA consists solely of the primary government. There are no component units.

Under the guidelines of GASB Statement No. 14, MTA is a jointly governed organization as detailed above. None of the participating governments appoints a majority of MTA's board and none has an ongoing financial interest or responsibility. None of the participating governments provided any support or had any significant financial transactions with MTA during fiscal 2004.

**Mass Transportation Authority
Notes to Financial Statements
September 30, 2004 and 2003**

1. Summary of significant accounting policies – (continued)

B. Basis of accounting

The accounts of MTA, which are organized as an enterprise fund, are used to account for MTA's activities that are financed and operated in a manner similar to a private business enterprise. Accordingly, the MTA maintains its records on the accrual basis of accounting. Revenues from operations, investments, and other sources are recorded when earned. Expenses (including depreciation and amortization) of providing services to the public are accrued when incurred.

Non-exchange transactions, in which MTA receives value without directly giving equal value in return, include property tax revenue and grants. On an accrual basis, revenue from property taxes is recognized in the current fiscal year. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, and expenditure requirements, in which the resources are provided to MTA on a reimbursement basis.

Pursuant to GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting", private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. MTA also has the option of following subsequent private-sector guidance, subject to this same limitation. MTA has elected not to follow subsequent private-sector guidance as it relates to its operations.

C. Cash investments, annuities, and insurance policies

Investments are stated at cost which approximates market. Annuities and insurance policies related to the deferred compensation and pension plans are stated at cash surrender value. For purposes of the cash flows statement, all highly liquid short-term investments with a maturity of less than 90 days at time of purchase are classified as cash and cash equivalents.

D. Inventories

Inventory consists of maintenance parts, repair parts, operating and office supplies, and fuel used in the operation of the transit system. Inventories are recorded at average cost. In accordance with industry practice, all inventories are classified as current assets even though a portion of the inventories are not expected to be utilized within one year.

E. Prepaid expenses

Prepaid expenses are payments made to vendors for services that will benefit periods beyond September 30, 2004 and 2003.

F. Accounts receivable

No allowance for bad debts is included in the financial statements as MTA considers all receivables collectible.

**Mass Transportation Authority
Notes to Financial Statements
September 30, 2004 and 2003**

1. Summary of significant accounting policies – (continued)

G. Capital assets

MTA defines capital assets as assets with an initial cost of at least \$5,000 and a useful life of more than one year. Capital assets are stated at cost or fair market value at date of gift. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amount, are capitalized.

Provisions for depreciation of building, improvements, and equipment are computed on the straight-line method. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	20-30 years	Maintenance and garage equipment	5-10 years
Building improvements	10-30 years	Service cars	3-6 years
Revenue equipment	4-12 years	Furniture and fixtures	4-10 years

H. Cost allocation plan

The Mass Transportation Authority has three cost allocation plans approved by the Bus Transit Division of the Michigan Department of Transportation for maintenance, the non-urban grant and for charter rates. These plans have been adhered to in the preparation of the financial statements.

I. Net assets – Equity displayed in three components

Invested in capital assets, net of related debt – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Restricted – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is MTA's policy to use restricted resources first, then unrestricted resources when they are needed.

Unrestricted – This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

J. Classifications of revenues

MTA has classified its revenues as either operating or non-operating. Operating revenue includes activities that have the characteristics of exchange transactions including passenger fares, advertising, and rental revenue. Non-operating revenue includes activities that have the characteristics of non-exchange transactions, such as property tax proceeds and most federal, state, and local grants and contracts.

Mass Transportation Authority
Notes to Financial Statements
September 30, 2004 and 2003

1. Summary of significant accounting policies – (continued)

K. Recognition of revenue and receivables

The federal government, through the Federal Transit Administration (FTA) and the Michigan Department of Transportation (MDOT), provide financial assistance and make grants directly to the Authority for operations and acquisition of property and equipment. Operating grants and special fare assistance awards made on the basis of entitlement periods are recorded as grant receivables and revenues over the entitlement periods. Capital grants for the acquisition of property and equipment (reimbursement type grants) are recorded as grant receivables and credited to non-operating revenues when the related capital expenditures are incurred. Capital grants for the maintenance of property, plant, and equipment are recorded as grant receivables and credited to non-operating revenues in the period operating expenditures are incurred.

L. Federal and State operating and preventive maintenance assistance funds

Federal and State operating and preventive maintenance assistance funds to be received by MTA under the Urban Mass Transportation Act of 1964, as amended, and under the Michigan Public Mass Transportation Grant Program are recorded and reflected as income in the period to which they are applicable.

M. Self-insurance liabilities and expense

MTA has a self-insurance program for general liability, property damage claims, and the workers' compensation claims.

Claims are accrued in the year the expenses are incurred, based upon the estimates of the claim liabilities made by management, legal counsel of MTA, and actuaries. Also provided for are estimates of claims incurred during the year but not yet reported.

Claims expense is accrued in the period the incidents of loss occur, based upon estimates of liability made by management with the assistance of third-party administration, legal counsel, and actuaries. Claims liability is the best estimate based on known information.

N. Passenger fares:

Passenger fares are recorded as revenue at the time services are performed.

O. Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Cash and investments

Deposits:

The Authority's cash consists of checking accounts. At September 30, 2004, the carrying amount of the Authority's deposits, excluding petty cash of \$2,285, was \$311,509, and the bank balance was \$666,373. The bank balance at year end is higher than the book value because of checks that have not yet cleared the bank. Of the bank balance, \$126,004 was covered by Federal Depository Insurance.

**Mass Transportation Authority
Notes to Financial Statements
September 30, 2004 and 2003**

2. Cash and investments – (continued)

Investments:

Effective March 8, 1999, the Authority adopted an investment policy. Funds of the Mass Transportation Authority will be invested in accordance with the Michigan Constitution and Public Act 55 of 1963 and Public Act 196 of 1997, in accordance with the following objectives, safety of principle, diversification, liquidity, and return of investment. In accordance with Michigan Public Act 55 of 1963 and Public Act 196 of 1997, the surplus funds of the Authority may be invested as follows:

Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, commercial paper, repurchase agreements, Bankers' acceptances of United States banks, Mutual funds, investment pools organized under the surplus funds investment pool act, 1982 PA 367, and investment pools organized under the local government investment pool act, 1985 PA 121.

Management's responsibility for the investment program is delegated to the "Investment Officer". The governing board of the Flint Mass Transportation Authority has designated the General Manager or the Finance Director as "Investment Officer".

The Authority maintains a list of eligible financial institutions authorized to provide investment services and a list of approved security broker/dealers selected by creditworthiness who are authorized and eligible to provide investment services in Michigan. No public deposit shall be made except in an eligible qualified institution.

The investments held by the Authority are for the Self Insurance and Pension Trust Funds. These investments are comprised of mutual funds and variable and guaranteed return contracts and are not categorized by risk because they are not evidenced by securities that exist in physical or book entry form.

	<u>2004</u>	<u>2003</u>
Hourly Pension Plan:		
Securities at fair value:		
Variable and guaranteed return contract	<u>\$2,839,073</u>	<u>\$2,637,272</u>
Management Pension Plan:		
Securities at fair value:		
Mutual funds	<u>\$1,819,775</u>	<u>\$1,528,534</u>
Self Insurance Fund:		
Securities at fair value:		
Money market funds	<u>\$ 838,284</u>	<u>\$ 784,291</u>

Mass Transportation Authority
Notes to Financial Statements
September 30, 2004 and 2003

3. Capital assets

Capital asset activity for the year ended September 30, 2004 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 1,895,925	\$ -	\$ -	\$ 1,895,925
Construction in progress	218,360	3,329,704	-	3,548,064
 Total capital assets, not being depreciated	 2,114,285	 3,329,704	 -	 5,443,989
Capital assets, being depreciated:				
Buildings	33,648,274	95,230	-	33,743,504
Leasehold improvements	50,518	-	-	50,518
Revenue equipment	39,387,853	2,491,848	(617,727)	41,261,974
Maintenance and garage equipment	968,969	57,394	(2,290)	1,024,073
Service cars	292,475	-	-	292,475
Furniture and fixtures	3,367,814	157,588	-	3,525,402
 Total capital assets, being depreciated	 77,715,903	 2,802,060	 (620,017)	 79,897,946
Less accumulated depreciation:				
Buildings	10,119,606	1,329,505	-	11,449,111
Leasehold improvements	16,035	2,554	-	18,589
Revenue equipment	26,469,754	4,284,495	(617,727)	30,136,522
Maintenance and garage equipment	802,146	91,908	(2,290)	891,764
Service cars	269,359	18,881	-	288,240
Furniture and fixtures	2,894,298	206,661	-	3,100,959
 Total accumulated depreciation	 40,571,198	 5,934,004	 (620,017)	 45,885,185
 Total capital assets, being depreciated, net	 37,144,705	 (3,131,944)	 -	 34,012,761
 Total capital assets, net	 \$39,258,990	 \$ 197,760	 \$ -0-	 \$39,456,750

When assets are withdrawn from public transportation service, the grantee must remit to the grantor the grantor's pro-rata share of the fair market value as of the date the asset was withdrawn from service; should an asset be sold by the grantee, the grantee must remit to the grantor the grantor's pro-rata share of the proceeds less any amount specified as a service fee per the grant. However, if items of equipment have a current per-unit fair market value of less than \$5,000, the unit may be retained, sold, or otherwise disposed of with no further obligation to the grantor.

**Mass Transportation Authority
Notes to Financial Statements
September 30, 2004 and 2003**

3. Capital assets - (continued)

Included in the September 31, 2004 construction in progress balance are costs associated with the Downtown Transfer Center and various service centers located throughout Genesee County and the September 30, 2004 construction in progress balance includes costs associated with the Grand Blanc and Mt. Morris service centers.

Remaining costs to complete these projects, as of September 30, 2004, which will extend over the next year, total approximately \$44,600 and are 100% eligible for reimbursement under approved capital grants.

At September 30, 2004, there was no capitalized interest.

4. Leases

Operating leases:

MTA leases various storage and/or terminal facilities with monthly payments totaling \$2,448. All leases expire by July 31, 2005.

MTA also has various leases on storage and/or terminal facilities on a month-to-month basis with payments ranging from \$567 to \$9,000.

The following is a schedule of future minimum rental payments under operating leases for the year subsequent to fiscal year ended September 30, 2004:

<u>Year Ending September 30,</u>	<u>Storage/ Terminals</u>
2004	\$ 12,636

Rent expense for the year ended September 30, 2004 and 2003, was as follows:

<u>Description</u>	<u>2004</u>	<u>2003</u>
Tires	\$ 40,695	\$116,533
Terminals/storage	279,539	125,549
	<u>\$320,234</u>	<u>\$396,342</u>

5. Lines of credit

The Authority has an unsecured line of credit agreement expiring June 30, 2004 with Bank One to borrow up to \$2,000,000. The interest on the line is charged at 80% of prime. (The prime interest rate at September 30, 2004 was 4.75%.) The balance due on the line of credit at September 30, 2004 and 2003 was \$2,000,000 and \$-0-, respectively. The line of credit is payable solely from fare box revenues, contract revenues, and operating assistance revenues and not from taxes or special assessments.

**Mass Transportation Authority
Notes to Financial Statements
September 30, 2004 and 2003**

6. State grants

As of September 30, 2004, the Authority has contracted with State of Michigan D.O.T. for various grant monies. All of the monies that the Authority is now eligible to receive have not yet been disbursed to them as the projects have not yet been completed. Below is a schedule of activity under these state grants including state grants or portions of state grants for which funds are still available to the Authority:

a. State capital grants

<u>Grantor</u>	<u>Contract or Project #</u>	<u>Grant Amount</u>	<u>Amount Earned This Audit Period</u>	<u>Total Amount Earned</u>	<u>Amount Deobligated</u>	<u>Amount Remaining</u>
State of Michigan D.O.T.	1998-0887	\$1,041,386	\$ 228,299	\$1,039,258	\$ -	\$ 2,128
State of Michigan D.O.T.	2000-0334	1,058,752	9,776	1,058,751	-	1
State of Michigan D.O.T.	2000-0453	874,554	29,018	871,819	-	2,735
State of Michigan D.O.T.	2001-0402	1,244,788	14,417	1,244,788	-	-
State of Michigan D.O.T.	2001-0490	340,837	37,310	340,837	-	-
State of Michigan D.O.T.	2003-0066 Z4	1,031,829	46,314	1,021,675	-	10,154
State of Michigan D.O.T.	2003-0066 Z5	11,000	10,971	11,000	-	-
State of Michigan D.O.T.	2003-0066 Z6	123,789	24,569	24,569	-	99,220
State of Michigan D.O.T.	2003-0066 Z7	259,883	17,640	80,735	-	179,148
State of Michigan D.O.T.	2003-0066 Z11	449,735	250,686	436,774	-	12,961
State of Michigan D.O.T.	2003-0066 Z12	1,059,712	164,972	828,815	-	230,897
State of Michigan D.O.T.	2003-0066 Z15	491,839	84,498	90,996	-	400,843
State of Michigan D.O.T.	2003-0066 Z16	704,732	504,850	505,946	-	198,786
State of Michigan D.O.T.	2002-0066 Z19	776,292	637,177	637,177	-	139,115
Total state capital grants		9,469,128	2,060,497	8,193,140	-	1,275,988

NOTE – Grants completed prior to October 1, 2003, were deleted from this schedule.

b. State operating grants (excluding operating assistance and Project Zero)

State of Michigan D.O.T.	2003-0066 Z14	283,971	283,971	283,971	-	-
Total state assistance		\$9,753,099	\$2,344,468	\$8,477,111	\$ -0-	\$1,275,988

7. Property taxes

For fiscal year 2003 through fiscal year 2006, .4 of a mill has been approved to be levied in each political jurisdiction within Genesee County. An additional .6 mill has been approved for levy for fiscal years 2001 - 2006 in the City of Flint over and above the property taxes levied county wide. Property taxes attach as an enforceable lien on property as of December 31. Taxes are levied on the following December 1 and are payable without penalty through February 28. The political jurisdictions within Genesee County bill and collect their own property taxes and remit payments to the Mass Transportation Authority. Real property taxes delinquent at March 1 are remitted from the county. Delinquent personal property taxes are remitted from the political jurisdictions when collected. Property tax revenues are recognized in the fiscal year levied to the extent they are measurable and available.

**Mass Transportation Authority
Notes to Financial Statements
September 30, 2004 and 2003**

8. Risk management

The Mass Transportation Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Authority has purchased commercial insurance for property, boiler and machinery, crime, inland marine, public officials liability, employee dishonesty, underground storage tank liability, excess workers compensation, employee life, accidental death and dismemberment, short term disability, medical, and dental coverages. The Authority participated in the Michigan Transit Pool for claims relating to liability, no-fault and excess comprehensive coverage through December 1, 2000. MTA is self-insured for general liability, worker's disability compensation within its \$250,000 retention, for all physical damage to its vehicles and up to \$50,000 for comprehensive coverage, and for employee vision care. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

During May 1998, a magistrate entered an open award providing the widow of an MTA bus operator with weekly workmen's compensation benefits of \$141.33 for a total of 500 weeks. The total award of \$70,665 was recognized as a liability and expense at the time it was awarded. The remaining liability of \$25,439 is to be paid as follows: 2005 - \$7,349; 2006 - \$7,349; 2007 - \$7,349; and 2008 - \$3,392.

During January 2001, a settlement was reached on a 1998 case, involving a maintenance employee's claim. The case was settled for \$75,000 with a lump sum payment of \$40,000 in January 2001, and the balance to be paid at a rate of \$1,129.35 per month (including interest) for 36 months. The total award of \$75,000 was recognized as a liability and an expense at September 30, 2000. The liability was fully paid in 2004.

Also during 2001, a claim filed in July 2000 by a bus operator was settled for \$65,000. A lump sum payment of \$35,000 was paid in November 2001. The balance is being paid at a rate of \$500 per month for 60 months starting October 1, 2001. The remaining liability of \$12,000 is to be paid as follows: 2005 - \$6,000 and 2006 - \$6,000.

MTA, pursuant to statutory authority, contracted with Cambridge Integrated Services Group, Inc. for third party administration of disputed worker's disability compensation claims. ASU Risk Management Services, LTD., serves as the claims facility for no fault and tort claims made for losses alleged to have occurred in connection with the operation of MTA - owned vehicles and facilities.

The Michigan Transit Pool risk pool program operates as a claims - servicing pool for amounts up to member retention limits, and operates as a common risk - sharing management program for losses in excess of member retention amounts for claim years through December 2000. Premiums have been paid annually to the Pool to be used to pay claims up to the MTA's retention limit. Pool members share proportionately in losses that exceed member retentions. The Pool was able to purchase commercial insurance on behalf of its members at a lower cost than was available on an individual basis.

The Michigan Transit Pool estimated the liability for auto and general liability claims that had been incurred through the end of December 31, 2000, including both those claims that have been reported as well as those that have not yet been reported to the Pool. The Pool will continue to estimate and administer the claims for years previous to December 2000. All funds on deposit with the Pool will continue to be held by the Pool until all claims for a specific year are settled. The Pool's fiscal year is December 1 - November 30.

**Mass Transportation Authority
Notes to Financial Statements
September 30, 2004 and 2003**

8. Risk management – (continued)

Starting December 1, 2000, MTA hired the ASU Group to administer the liability claims, previously administered through the Michigan Transit Pool. An Internal Service Fund was established to account for this activity. An actuarial determination was completed to determine an estimate of the liability for incurred but not reported (IBNR) claims at September 30, 2004. The claim estimates are recorded as claims payable in the Self Insurance Internal Service Fund. The estimated liability as well as the total estimated costs (based on an actuarial calculation and claims presented) of claims for the past fiscal year for the Authority are as follows:

	<u>Fiscal Years Ended</u>	
	<u>2004</u>	<u>2003</u>
Estimated liability, beginning of year	\$ 639,422	\$ 686,410
Estimated claims incurred, including changes in estimates	572,551	229,180
Claims payments	<u>(403,320)</u>	<u>(276,168)</u>
Estimated liability, end of year	<u>\$ 808,653</u>	<u>\$ 639,422</u>

9. Contingencies/commitments

MTA participates in a number of federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs for or including the years ended September 30, 2004 and 2003 have been conducted and have been reported in this annual report. However, the compliance audit reports have not yet been accepted by the grantor. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although MTA expects such amounts, if any, to be immaterial.

10. Post employment benefits

In compliance with current labor agreements and board resolution, the Authority provides medical coverage for retired hourly and salaried personnel age 65 and over. The supplement is not to exceed \$150 per month for retirees with 20 years of service or \$100 per month for retirees with 10 years of service. The amounts paid are recorded as an expense when the liability is incurred. MTA finances the plan on a pay-as-you-go basis. For fiscal years ending September 30, 2004 and 2003, there were 4 eligible retirees for both years with a recorded expense of \$6,000 and \$5,471 for each year respectively.

11. Retirement plan - money purchase 401(a) pension plan

The Management Employees Retirement Plan is a single employer money purchase 401(a) pension plan which covers all management employees. The plan is accounted for in a pension trust fund and is administered by Mass Transportation Authority. There are no service or age requirements and employees are 100% vested after 5 years of service (0% vested prior to 5 years of service). (Employees are 100% vested in the employee rollover from the terminated defined benefit plan.) The plan is fully funded as it is MTA's policy to fund pension costs as it accrues.

**Mass Transportation Authority
Notes to Financial Statements
September 30, 2004 and 2003**

11. Retirement plan - money purchase 401(a) pension plan – (continued)

Employer contributions are to be determined by the employer and may be changed from time to time. The employer is to advise plan participants in writing of the percentage and of any change in the percentage. Employee contributions are mandatory to receive the employer contribution. Employees are required to contribute 4% to participate in the employer match of 8%.

The plan has the right to recover overpayments made by the plan and to satisfy any claim arising from embezzlement or fraud committed by a participating, former participant, beneficiary, or other person who has a claim to an accumulated balance or any other benefit from the plan.

Employer and employee contributions were made as follows:

	<u>2004</u>	<u>2003</u>
Employer	\$177,400	\$171,314
Employee	<u>88,700</u>	<u>85,408</u>
Total	<u>\$266,100</u>	<u>\$256,722</u>

12. Retirement plan - Hourly Employees Defined Contribution Pension Plan

The Hourly Employees Retirement Plan is a single employer defined contribution plan which covers all full time hourly employees, who are members of AFSCME Michigan Council 25 Local 3437. The plan is accounted for in a pension trust fund and is administered by Mass Transportation Authority. There are no service or age requirements and employees are 100% vested after 5 years of service (0% vested prior to 5 years of service). The plan is fully funded as it is MTA's policy to fund pension costs as it accrues. Employees are required to contribute 4% to participate in the employer match of 4%.

Employer and employee contributions were made as follows:

	<u>2004</u>	<u>2003</u>
Employer	\$126,487	\$120,178
Employee	<u>126,487</u>	<u>120,178</u>
Total	<u>\$252,974</u>	<u>\$240,356</u>

13. Compensated absences

Vacation leave is earned in varying amounts depending on the number of years of service of an employee. Vacation leave is credited to hourly employees annually on the anniversary of their seniority date; for management employees, vacation credit is accrued monthly.

Earned vacation credit is payable at 100 percent to employees when they terminate employment up to a maximum of 320 hours.

**Mass Transportation Authority
Notes to Financial Statements
September 30, 2004 and 2003**

13. Compensated absences – (continued)

Vacation earned during the year is recorded as current fringe benefit expenses. At year end, each employee's accumulated leave is computed by applying his current (year end) rate of pay times total accumulated hours. The composite dollar total for all employees is entered in the enterprise fund as an accrued liability and fringe benefit expense.

The Authority does not grant sick leave time to its employees.

14. Deferred compensation

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to key officials and employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. During a previous year, the law was changed to allow trusts to be created for the plan assets, thereby, insulating the assets from the unit of government's general creditors. The Authority's plan administrator, Pebeco, created the trust and placed the assets of the plan within the trust. As a result, the plan assets have been removed from the Enterprise Fund to reflect that the Authority no longer has any fiduciary or administrative responsibility for the plan.

15. Deficit retained earnings

The Authority's financial statements as of September 30, 2004 show a current year unrestricted excess of revenues over expenses of \$251,347, which decreased the deficit unrestricted net assets to \$1,521,990.

Over the past several years, the Mass Transportation Authority has seen its State formula operating assistance decrease. The State of Michigan also decreased the scope of what is deemed an eligible expense for reimbursement. These factors combined represent an annual decrease in formula operating assistance revenues that resulted in operating deficits in fiscal year 1999, fiscal year 2000, and fiscal year 2001. In fiscal years 2003 and 2004, action was taken to reduce expenses consistent with the decrease in revenue.

The Authority's intent for the next year is to maintain net profits through the stabilization of operating expenses while continuing to maintain the current level of revenues. This will enable the Authority to eliminate the deficit retained earnings and move toward a positive balance in the years ahead.

16. Subsequent event

Genesee County voters approved an additional 0.4 mill tax which is effective December 2004. 0.3 mills of the new tax will be used for supporting existing services and 0.1 mills is to be used to pay for additional services, including additional vehicles and expansion of night hours on fixed routes.

Supplementary Information

Mass Transportation Authority
Operating Revenues
For the Years Ended September 30, 2004 and 2003

	<u>2004</u>		<u>2003</u>	
		<u>Related Expenses</u>		<u>Related Expenses</u>
Operating revenues:				
Farebox:				
Fixed route	\$ 1,577,801		\$ 1,434,777	
Demand response	552,574		468,197	
Regional transportation	151,989		160,254	
	<u>2,282,364</u>		<u>2,063,228</u>	
Advertising	29,778	\$ -	84,000	\$ -
Rental	166,690	47,074	159,336	46,402
Parking lot and meters, lockers, chairs, and phones	30,296	-	35,913	763
Miscellaneous	107,070	-	1,311	-
	<u>2,616,198</u>	<u>\$ 47,074</u>	<u>\$ 2,343,788</u>	<u>\$ 47,165</u>
Total operating revenues				

Mass Transportation Authority
Operating Expenses
For the Year Ended September 30, 2004
With Comparative Totals For the Year Ended September 30, 2003

	Operations	Maintenance	General Administration	Total System	
				2004	2003
Labor:					
Operator's salaries and wages	\$ 5,462,698	\$ -	\$ -	\$ 5,462,698	\$ 4,993,963
Other salaries and wages	586,713	1,656,062	949,436	3,192,211	3,265,270
Dispatcher salaries and wages	148,028	-	-	148,028	142,773
Fringe benefits	3,670,126	980,721	562,257	5,213,104	4,653,007
Services:					
Advertising fees	-	-	63,396	63,396	80,370
Other services	-	91,823	941,447	1,033,270	967,764
Materials and supplies consumed:					
Fuel and lubricants	1,093,759	9,075	-	1,102,834	873,474
Other materials and supplies	18,982	1,362,408	115,842	1,497,232	1,281,159
Utilities	-	-	628,904	628,904	536,726
Casualty and liability costs:					
Liability insurance	939,680	-	-	939,680	909,143
Other insurance	-	-	126,336	126,336	102,122
Taxes and fees	-	-	6,015	6,015	1,059
Miscellaneous expense:					
Travel, meetings, and training	-	-	16,645	16,645	15,570
Association dues and subscriptions	-	-	35,955	35,955	36,768
Lobbying	-	-	42,000	42,000	38,500
Other miscellaneous expenses	-	-	48,365	48,365	49,778
Interest expense:					
Interest on short-term debt	-	-	53,768	53,768	50,165
Interest on state advances	-	-	6,796	6,796	14,233
Operating leases and rentals	-	-	279,539	279,539	279,809
Depreciation and amortization expense	-	-	5,934,004	5,934,004	5,354,798
Total expenses	\$ 11,919,986	\$ 4,100,089	\$ 9,810,705	\$ 25,830,780	\$ 23,646,451

**Mass Transportation Authority
Enterprise Fund
Nonoperating Revenues
For the Years Ended September 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
Property tax revenue	\$ 4,804,479	\$ 4,615,969
State of Michigan operating grants:		
Urban operating assistance	5,109,089	5,109,089
Non-urban operating assistance	331,312	319,600
Operating assistance 1999 reconciliation	(98,964)	-
Project Zero	918,230	1,244,048
Job Access	743,445	1,040,204
Capital grants used for operations	834,144	775,481
Specialized services	283,971	283,971
Total state operating grants	<u>8,121,227</u>	<u>8,772,393</u>
Federal operating grants:		
Job Access	743,445	1,040,204
Section 5311 operating assistance	80,045	84,466
Capital grants used for operations	3,336,575	3,101,925
FTA Section 8 - Ridership study	22,704	-
Federal security/emergency management	1,880	32,976
Total federal operating grants	<u>4,184,649</u>	<u>4,259,571</u>
Gain on sale of capital asset	57,079	-
Interest income	3,994	4,583
Total nonoperating revenues	<u>\$ 17,171,428</u>	<u>\$ 17,652,516</u>

Mass Transportation Authority
Enterprise Fund
Schedule of Expenses by Contract and General Operations
For the Year Ended September 30, 2004
With Comparative Totals For the Year Ended September 30, 2003

	Non-urban	Project Zero	Job Access
Labor	\$ 347,427	\$ 856,614	\$ 1,673,152
Fringe benefits	205,747	507,287	990,841
Other services	32,075	95,391	154,467
Materials and supplies consumed	102,618	253,012	494,188
Utilities	24,821	61,199	119,534
Casualty and liability costs	52,428	100,227	195,765
Taxes and fees	237	585	1,144
Miscellaneous expense	5,642	13,912	27,173
Interest expense	2,390	5,893	11,511
Leases and rentals	11,033	27,202	53,131
Depreciation and amortization	-	-	-
Total expenses	\$ 784,418	\$ 1,921,322	\$ 3,720,906

Schedule IV

Urban	Total Operations	Specialized Services	Total System	
			2004	2003
\$ 5,925,744	\$ 8,802,937	\$ -	\$ 8,802,937	\$ 8,402,006
3,509,229	5,213,104	-	5,213,104	4,653,007
539,429	821,362	275,304	1,096,666	1,048,134
1,750,248	2,600,066	-	2,600,066	2,154,633
423,350	628,904	-	628,904	536,726
717,596	1,066,016	-	1,066,016	1,011,265
4,049	6,015	-	6,015	1,059
96,238	142,965	-	142,965	140,616
40,770	60,564	-	60,564	64,398
188,173	279,539	-	279,539	279,809
5,934,004	5,934,004	-	5,934,004	5,354,798
\$ 19,128,830	\$ 25,555,476	\$ 275,304	\$ 25,830,780	\$ 23,646,451

**Mass Transportation Authority
Maximum Reimbursement Computation of
State Bus Operating Assistance
For the Year Ended September 30, 2004**

State operating assistance - Urban

Operations expenses:

Labor	\$ 8,802,937
Fringe benefits	5,213,104
Other services	1,096,666
Materials and supplies	2,600,066
Utilities	628,904
Casualty and liability costs	1,066,016
Taxes	6,015
Miscellaneous expense	142,965
Interest expense	60,564
Leases and rentals	279,539
Depreciation and amortization	5,934,004

Total operations expenses 25,830,780

Less ineligible expenses:

Non-urban operating assistance	784,418
Project Zero	918,230
Job Access	1,486,890
Specialized Services	283,971
Federal security/emergency management	1,880
Capital grants used for operations	4,170,719
FTA Section 8-Ridership Study	28,380
Related expenses	47,074
Depreciation and amortization	5,932,520
Miscellaneous	52,708
State interest expense	6,796

Total ineligible expenses 13,713,586

Net eligible expenses - Urban \$ 12,117,194

State operating assistance - Urban

Greater of:

Statutory allowed (35.208599129% of eligible expenses)	4,266,294	
Statutory floor - 1997 resources available per MDOT	5,109,089	
Grant award	5,109,089	5,109,089

State programmed receipts - Urban 5,109,089

Project over payment - Urban \$ - 0 -

(continued)

**Mass Transportation Authority
Maximum Reimbursement Computation of
State Bus Operating Assistance (continued)
For the Year Ended September 30, 2004**

State operating assistance - Non-urban

Non-urban eligible operating expenses	<u>\$ 784,418</u>	
	<u>Non-urban (State)</u>	<u>Section 5311 (Federal)</u>
Grant limits:		
Non-urban - 42.236619648% of eligible expenses	\$ 331,312	\$ -
Non-urban - 10.95% of eligible expenses	-	85,894
Net eligible expense	331,312	85,894
Grant award	<u>331,312</u>	<u>80,045</u>
Project under payment - Non-urban	<u>\$ - 0 -</u>	<u>\$ 5,849</u>

**Mass Transportation Authority
Detail of Ineligible Items - State
For the Year Ended September 30, 2004**

DEPRECIATION AND AMORTIZATION

Depreciation expense of public operations is ineligible according to UMTA C 9050.1, Page A-4 for all capital assets purchased from federal, state, or local funds. Amortization expense of assets purchased through capital leases which are being repaid from state and federal funds has also been included as an ineligible expense. For capital assets purchased from Authority funds, depreciation is an eligible expense for state operating assistance purposes and amounted to \$1,484.

MISCELLANEOUS

The following expenditures are not eligible for operating assistance:

<u>Description</u>	<u>Amount</u>
Dues	\$ 6,116
Fines and penalties	4,592
Lobbying	<u>42,000</u>
Total miscellaneous	<u>\$ 52,708</u>

The Authority paid \$45,726 in connection with annual dues to the American Public Transit Association and Michigan Public Transit Association. It has been determined that these organizations devote approximately 16 and 7.4 percent, respectively, of their activities to influencing legislation, which is not eligible for reimbursement according to OMB Circular A-87. The ineligible portion of dues paid to Transit Association amounted to \$6,116 for the year.

RELATED EXPENSES - MISCELLANEOUS REVENUE

In addition, costs associated with miscellaneous revenue are ineligible expenses. See Schedule I for these costs.

INTEREST EXPENSE

Non-state interest expense on short-term debt obligations after deducting all interest income is eligible. (Interest expense paid to the State of Michigan of \$6,796 is totally ineligible.)

**Mass Transportation Authority
Vehicle Miles
For The Year Ended September 30, 2004
(Unaudited)**

	Public Transportation <u>Mileage</u>	Regional <u>Mileage</u>	Specialized Services Section 5311 <u>Mileage</u>
<u>Fixed Route</u>			
First Quarter	368,253	197,555	-
Second Quarter	403,428	198,613	-
Third Quarter	407,877	200,479	-
Fourth Quarter	410,376	202,961	-
	<hr/>	<hr/>	<hr/>
Total Fixed Route	1,589,934	799,608	-
	<hr/>	<hr/>	<hr/>
<u>Demand Response</u>			
First Quarter	1,633,264	-	32,184
Second Quarter	1,626,512	-	34,189
Third Quarter	1,649,685	-	27,055
Fourth Quarter	1,585,332	-	25,334
	<hr/>	<hr/>	<hr/>
Total Demand Response	6,494,793	-	118,762
	<hr/>	<hr/>	<hr/>
Total Operation	8,084,727	799,608	118,762
	<hr/>	<hr/>	<hr/>

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

**Independent Auditors' Report on Compliance on
Internal Control over Financial Reporting Based on an
Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards***

To the Board of Directors
Mass Transportation Authority
Flint, Michigan

We have audited the general purpose financial statements of Mass Transportation Authority, Flint, Michigan, as of and for the year ended September 30, 2004, and have issued our report thereon dated January 14, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Mass Transportation Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Mass Transportation Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

This report is intended solely for the information and use of Mass Transportation Authority, federal awarding agencies and pass-through entities and is not intended for and should not be used by anyone other than these specified parties.

BKR Dupuis & Ryden

Certified Public Accountants
Flint Office

January 14, 2005

**Independent Auditors' Report on Compliance with
Requirements Applicable to each Major Program and
Internal Control over Compliance
in Accordance with OMB Circular A-133**

Board of Directors
Mass Transportation Authority
Flint, Michigan

Compliance

We have audited the compliance of Mass Transportation Authority with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2004. Mass Transportation Authority's major federal programs are identified in the summary of auditor's results of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Mass Transportation Authority's management. Our responsibility is to express an opinion on Mass Transportation Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mass Transportation Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Mass Transportation Authority's compliance with those requirements.

In our opinion, Mass Transportation Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.

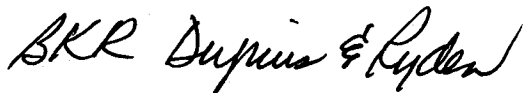
Internal Control over Compliance

The management of Mass Transportation Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Mass Transportation Authority's

internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operations we consider to be material weaknesses.

This report is intended solely for the information and use of Mass Transportation Authority, federal awarding agencies and pass-through entities and is not intended for and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, reading "BKR Dupuis & Ryden".

Certified Public Accountants
Flint Office

January 14, 2005

Mass Transportation Authority
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2004

	<u>Federal CFDA Number</u>	<u>Federal Project Number ⁽²⁾</u>	<u>Total Federal Allocation</u>
<u>U.S. Department of Transportation</u>			
Federal Transit Capital Investment	20.500 ⁽¹⁾	MI-03-0169	\$ 3,498,216
Federal Transit Capital Investment	20.500 ⁽¹⁾	MI-03-0174	495,157
Federal Transit Capital Investment	20.500 ⁽¹⁾	MI-03-0187	1,039,530
Federal Transit Capital Investment	20.500 ⁽¹⁾	MI-03-0197	<u>1,967,357</u>
			<u>7,000,260</u>
Federal Transit Formula	20.507 ⁽¹⁾	MI-90-X304	3,815,544
Federal Transit Formula	20.507 ⁽¹⁾	MI-90-X339	4,235,008
Federal Transit Formula	20.507 ⁽¹⁾	MI-90-X357	4,979,150
Federal Transit Formula	20.507 ⁽¹⁾	MI-90-X364	1,363,347
Federal Transit Formula	20.507 ⁽¹⁾	MI-90-X378	4,127,316
Federal Transit Formula	20.507 ⁽¹⁾	MI-90-X379	44,000
Federal Transit Formula	20.507 ⁽¹⁾	MI-90-X384	1,798,941
Federal Transit Formula	20.507 ⁽¹⁾	MI-90-X405	4,238,849
Federal Transit Formula	20.507 ⁽¹⁾	MI-90-X417	2,818,928
Federal Transit Formula	20.507 ⁽¹⁾	MI-90-X432	3,105,168
Federal Transit Formula	20.507 ⁽¹⁾	MI-40-X002-00	<u>35,000</u>
			<u>30,561,251</u>
Total Capital Assistance			<u>37,561,511</u>
Job Access – Reverse Commute	20.516	MI-37-X015	<u>743,445</u>
Total Direct Assistance			<u>38,304,956</u>
Passed through State of Michigan			
Department of Transportation			
Formula grants for other than urbanized areas	20.509	MI-90-X035	80,045
Genesee County Metropolitan			
Planning Commission:			
Federal Transit Metropolitan Planning Grant	20.505	2002-0066Z18	<u>22,704</u>
Total Pass Through			<u>102,749</u>
Total Federal Assistance			<u>\$38,407,705</u>

<u>Revenue Recognized This Audit Period</u>	<u>Disbursements/ Expenditures During This Audit Period</u>	<u>Deobligated</u>	<u>Cumulative Disbursements/ Expenditures</u>	<u>Amount Remaining⁽³⁾</u>
\$ 116,072	\$ 116,072	\$ -	\$3,487,276	\$ 10,940
98,276	98,276	-	98,276	396,881
70,559	70,559	-	322,940	716,590
337,989	337,989	-	363,983	1,603,374
622,896	622,896	-	4,272,475	2,727,785
913,196	913,196	-	3,807,034	8,510
39,104	39,104	-	4,235,008	-
57,667	57,667	-	4,979,150	-
149,240	149,240	-	1,363,347	-
185,256	185,256	-	4,086,700	40,616
43,884	43,884	-	44,000	-
1,002,746	1,002,746	-	1,747,099	51,842
659,888	659,888	-	3,315,260	923,589
2,019,403	2,019,403	-	2,023,786	795,142
2,548,706	2,548,706	-	2,548,706	556,462
1,880	1,880	-	34,856	144
7,620,970	7,620,970	-	28,184,946	2,376,305
8,243,866	8,243,866	-	32,457,421	5,104,090
743,445	743,445	-	743,445	-
8,987,311	8,987,311	-	33,200,866	5,104,090
80,045	80,045	-	80,045	-
22,704	22,704	-	22,704	-
102,749	102,749	-	102,749	-
\$9,090,060	\$9,090,060	\$ -0-	\$33,303,615	\$5,104,090

(continued)

Mass Transportation Authority
Schedule of Expenditures of Federal Awards – (continued)
For the Year Ended September 30, 2004

NOTES:

- (1) Denotes major program.
- (2) The schedule of expenditures has been prepared on the accrual basis.
- (3) Amounts do not include totals for grants received and deobligated during the fiscal year presented.

**Mass Transportation Authority
Schedule of Findings and Questioned Costs
Year Ended September 30, 2004**

Part I

1. Did the auditee expend more than \$25,000,000
in federal awards during the fiscal year? ☐ Yes ☒ No
2. If answer to question 1 was yes, indicate which
federal agency provided the predominant amount
of direct funding. _____

Part II – Financial Statements

Type of auditor's report issued: Unqualified

Going concern explanatory paragraph included ☐ Yes ☒ No

Internal control over financial reporting:
Material weakness(es) identified? ☐ Yes ☒ No
Reportable condition(s) identified
Not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements
noted? ☐ Yes ☒ No

Findings related to the financial statements reported in accordance with *Governmental Auditing Standards*:
None

Part III – Federal Programs

Type of auditor's report issued on compliance
for major programs: Unqualified

Does the auditor's report include a statement
that the auditee's financial statements include
departments, agencies, or other organizational
units expending greater than \$300,000 in Federal
awards that have separate A-133 audits which are
not included in this audit? ☐ Yes ☒ No

Dollar threshold used to distinguish
between Type A and Type B programs \$300,000

Auditee qualified as low-risk auditee ☐ Yes ☒ No

(continued)

Mass Transportation Authority
Schedule of Findings and Questioned Costs – (continued)
Year Ended September 30, 2004

Part III – Federal Programs – (continued)

Is a reportable condition disclosed for any major program? Yes X No

Is any reportable condition reported as a material weakness? Yes X No

Are any known questioned costs reported? Yes X No

Was a Summary Schedule of Prior Audits Findings Prepared? X Yes No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>20.500</u>	<u>Capital Assistance</u>
<u>20.507</u>	<u>Capital and Operating Assistance</u>

Findings and questioned costs relating to federal awards:

None

**Mass Transportation Authority
Summary Schedule of Prior Audit Findings
Year Ended September 30, 2004**

There were no prior year audit findings.

January 14, 2005

To the Board of Directors
Mass Transportation Authority
1401 South Dort Highway
Flint, Michigan 48503

We have audited the general purpose financial statements of Mass Transportation Authority (MTA) for the year ended September 30, 2004, and have issued our report thereon dated January 14, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered MTA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether MTA's financial statements are free of material misstatement, we performed tests of its compliance with certain provision of laws, regulation, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about MTA's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to its major federal program cluster for the purpose of expressing an opinion on MTA's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on MTA's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by MTA are described in Note 1 to the financial statements.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the lives of fixed assets used in the enterprise fund. We evaluated the lives used and feel that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of obsolescence in inventory. We discussed the value of inventory that is obsolete with management.

Significant and Passed Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. We proposed no audit adjustments that could, in our judgment, either individually or in the aggregate, have significant effect on MTA's financial reporting process.

There were no uncorrected misstatements (passed adjustments not posted) aggregated by BKR Dupuis & Ryden during the current engagement.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situation. If a consultation involves application of an accounting principal to the governmental unit's general purpose financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management (primarily the General Manager and Assistant General Manager of Administration) each year prior to retention as MTA's auditors. These discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

To the Board of Directors
Mass Transportation Authority
January 14, 2005
Page 3

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

During the audit we became aware of matters that involved internal accounting controls and also other opportunities for strengthening internal control. This letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated January 14, 2005, on the financial statements of MTA.

Operating and Administrative Procedures

In our review of these procedures, numerous of them need to be updated for changes in technology and updated for changes in the actual procedures performed by staff caused by changes to software.

Fixed Asset Systems

The allocation between federal and state funding needs to be reviewed for all fixed assets in the system. During our testing, we noted numerous assets with a different funding allocation in the new fixed asset system from what was noted in the previous system.

Resolution of Prior Year Comments:

NTD Records (Repeat Comment for Fiscal 2004)

We suggested that a process be established to review the source documents from which the NTD reports are created specifically for pull-offs and deadheads. The non-recording of pull-offs continued to be a problem for fiscal 2004.

Capital Assets

We noted that capital asset subsidiary records for buildings are maintained on Excel spreadsheets. We suggested that these records be added to the software that accounts for equipment depreciation. During fiscal 2004, buildings were added to the software.

We will review the status of these comments during our next audit engagement. We will be pleased to discuss it in further detail at your convenience, and/or to assist you in any way in implementing the recommendations.

The information is intended solely for the use of the Board and management of MTA and should not be used for any other purpose.



Certified Public Accountants
Flint Office